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SUBJECT: BANKERS' TAKE ON POSSIBLE ELECTION OUTCOMES

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ISTANBUL 00000258 001.2 OF 002

1. (SBU) Summary: Istanbul bankers and key business leaders are evenly divided on Prime Minister Erdogan's presidential aspirations with some claiming he would be a fool to take the highly respected but largely ceremonial position while others claim Erdogan's ego will not allow him to forego the opportunity to claim the highest position in the Turkish political structure. They agree however that the Presidency is his for the taking, noting that the AK Party has both strong party discipline and sufficient votes to triumph without having to seek support outside the party. Most private sector observers agree that a decision by Erdogan to forgo the presidency will improve the AKP's chances in the November parliamentary elections as well as reassure investors and the business community. End Summary.

Background

2. (SBU) As noted reftel, Istanbul based business leaders do not appear overly concerned by the possibility of current PM Erdogan becoming President. Bankers and business leaders tend to agree that an Erdogan decision to forgo the Presidency would both place the AK Party in a stronger position for the November Parliamentary elections and give strong impetus to economic growth for the remainder of the year. Business community observers are divided over whether Erdogan will opt to run for President, but agree that if he runs he has the votes needed to succeed.

3. (SBU) Agreeing with comments recently made by Economy Minister Babacan to an investor group, most private sector analysis indicates Parliamentary elections will be shaped by the number of parties that cross the 10% threshold rather than the percentage of votes each party receives. If three parties cross the 10% threshold AKP would need 27.5% of the vote to obtain a slim one seat majority and about 30% for a sustainable majority. However, if four parties cross the threshold AKP would need 33.5% of total votes cast for a one seat majority and more than 35% for a sustainable majority. The one seat majority analysis does not take into account the possibility of several DTP politicians winning seats as independents, which would dilute the impact of an AKP plurality. Given current poll ratings, this analysis indicates that if more than two parties make it into parliament the AKP will find it very difficult to hold onto a majority.

Scenario 1: Erdogan Remains as Prime Minister

14. (SBU) A financial analyst who believes opting for the presidency would be "completely illogical and therefore very unlikely" argues poll numbers and the likelihood AKP would be forced into coalition come November will make Erdogan choose to remain Prime Minister. If PM Erdogan chooses not to run for President, his decision will be greeted with a strongly positive market reaction, according to every observer we have spoken with. This would likely include increased foreign direct investment on the part of companies currently awaiting election results as well as increased confidence that a reform-minded AKP would retain majority control of parliament in November's elections. Although often accompanied by disdain for AKP's social / cultural platform, most financial analysts and many business leaders agree that the Erdogan-led AKP government has been the most reform-minded, liberal government in the history of the Republic. The large AKP majority and the longevity of the government have also provided a rare, extended period of political stability that has supported business confidence.

Scenario 2: Erdogan Opts for the Presidency

15. (SBU) Market analysts agree that an Erdogan presidency would not lead to mass protests or other civil disturbance. A well-connected industrialist told us Erdogan's months-long flirtation with the presidency was carefully orchestrated to "exhaust opponents and inure public opinion to the idea of President Erdogan." A leading financial analyst who believes Erdogan will run for President recently told us he expected an Erdogan candidacy would not "trigger the army's wrath in a traditional sense." He expects a more subtle reaction instead with the media and the 'secular establishment' working to create a "perception of besiegement" by arguing it

ISTANBUL 00000258 002.2 OF 002

is unhealthy for one party to control the prime ministry, the parliament and the presidency. Private sector observers generally agree that if a coalition government emerges after the November elections it would likely be both more populist and less reform oriented than the current AKP majority government. In fact, the private sector seems far more worried about the possibility of a coalition government prone to populist economic policies than about an Erdogan presidency.

Comment

16. (SBU) It is impossible to know whether PM Erdogan will opt for the presidency, however from the Istanbul private sector perspective it would clearly be better for market and investor confidence if he did not. In contrast to our academic and media contacts, business leaders (who as a rule are just as "secular" as the others) aren't arguing that an Erdogan presidency would be bad from a social / cultural perspective, but instead have focused on the potential for sustained orthodox economic policy that could come from continued majority party control of parliament. Several more years of AKP control of Parliament would potentially enable the government to tackle social security entitlements as well as engage in a gradual reduction of tax rates. These far-reaching economic reforms are key to sustaining long-term growth, but are next to impossible to enact in an election year and extremely unlikely to occur under a populist-leaning coalition government. End Comment.

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